



Quality Counts

Independent quality assessments add value

By Richard F. Chambers, CIA, CRMA, CGAP, CCSA

As I reflected on the progress internal auditors are making in being recognized for our skills and abilities and as a profession, it occurred to me that we have just passed an important landmark for our profession.

This year marks a decade since the requirement was introduced that all internal audit functions undergo periodic independent quality assessments. As internal auditors, we are champions for the faithful adherence to laws, regulations, policies and procedures.

However, when it comes to compliance with our own professional standards, it seems many of us are less concerned. In the 2010 Common Body of Knowledge survey, fewer than half of the internal audit groups surveyed said they fully complied with The Standards for the Professional Practice of Internal Auditing (The Standards).

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The reasons given for noncompliance varied. Some audit executives felt The Standards were not appropriate for a smaller internal audit group, for their company or industry. Others believed that compliance would be too costly or time-consuming. A few respondents stated that compliance was not “expected” in their countries, or their management or boards did not support the process.

If we had heard these same excuses about professional standards from the physicians, attorneys or accountants that we audit, we would have found the excuses, to put it bluntly, inadequate. It is also difficult to imagine a public accountant openly declaring: “We are just a small organization, so we don’t use accounting standards. It’s simply not worth our time.”

Of all our standards, the one that seems most challenging for compliance is the requirement for an independent quality assessment. Exit interviews consistently indicate that independent quality assessments add value. Other surveys have found the reviews serve to show the quality of our work and to enhance our stakeholders’ confidence in our abilities.

Yet, even at organizations where the internal audit charter specifically states internal auditing will be practiced in accordance with The Standards, compliance with this particular one is inconsistent. We audit every other essential part of the internal control system, but it appears we hesitate to audit ourselves.

The cost of continued noncompliance with our professional standards could be considerable. Some audit executives have already paid a price for non-compliance, in particular, when things have gone wrong and senior management or the audit committee looked for an explanation. Consider what has happened in various other professions, when inconsistent or ineffective practices have sometimes led to increased regulatory oversight.



Quality Assurance

The *International Standards for the Professional Practice of Internal Auditing* (The Standards) 1300 series require a Chief Audit Executive (CAE) to develop and maintain a Quality Assurance and Improvement Program (QAIP). A QAIP is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and The Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also allows auditors to assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.

The required elements of a QAIP include ongoing and periodic internal assessments that lay the foundation for external assessments and together establish conformance with The Standards. If you have not yet established a QAIP, a good first step on the path to quality is to conduct an internal quality assessment. This will establish a benchmark of the internal audit activity and can be used to establish metrics. These metrics will indicate improvement in areas of conformance with The Standards.

The QAIP not only provides a means for evaluation of conformance with The Standards, but evidence to the audit committee and management that the internal audit activity is concerned about the organization's internal controls, ethics, governance and risk management processes. It builds stakeholder confidence and documents a commitment to quality, leading practices and a mindset for professionalism.

IIA Standard 1300:

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of internal audit quality.

IIA Standard 1310:

The quality assurance and improvement program must include both internal and external assessments.

IIA Standard 1311:

Internal assessments must include: Ongoing monitoring of the performance of the internal audit activity; and periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.

IIA Standard 1312:

External assessments must be conducted once every five years by a qualified, independent reviewer or review team from outside the organization. The chief audit executive must discuss with the board: The need for more frequent external assessments and the qualifications and independence of the external reviewer or review team, including any potential conflict of interest.

As professionals, it is important that we help internal auditing groups come into compliance. Auditors should be taught the value of Standards. Volunteer to serve on independent quality assessment teams. Wherever possible, help ensure our senior management and boards know the value of full compliance.

Clearly, there is still a lot of work to be done in this area. I call on all internal

audit professionals in the healthcare industry to make a firm commitment to internal audit quality. It is not enough to comply with the specific standards that we happen to favor. It is essential to the reputation of our profession that internal auditing is practiced consistently. **NP**

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